

110TH CONGRESS  
2D SESSION

# H. R. 6990

To establish the Independent Fannie Mae and Freddie Mac Investigative Commission to investigate the actions of officers and directors at Fannie Mae and Freddie Mac responsible for making the decisions that led to the enterprises' financial instability and the subsequent Federal conservatorship of such enterprises, and any financial gains that accrued to such officers and directors.

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## IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 22, 2008

Ms. KAPTUR introduced the following bill; which was referred to the  
Committee on Financial Services

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## A BILL

To establish the Independent Fannie Mae and Freddie Mac Investigative Commission to investigate the actions of officers and directors at Fannie Mae and Freddie Mac responsible for making the decisions that led to the enterprises' financial instability and the subsequent Federal conservatorship of such enterprises, and any financial gains that accrued to such officers and directors.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

1 **SECTION 1. SHORT TITLE.**

2 This Act may be cited as the “Independent Fannie  
3 Mae and Freddie Mac Investigative Commission Act”.

4 **SEC. 2. FINDINGS.**

5 Congress finds the following:

6 (1) The United States has suffered tremen-  
7 dously from the irresponsible and unchecked growth  
8 of the mortgage industry which proliferated under  
9 the policies of Fannie Mae and Freddie Mac.

10 (2) The Federal conservatorship of Fannie Mae  
11 and Freddie Mac may cost the American people a  
12 minimum of \$200,000,000,000, and potentially \$2.4  
13 trillion, making it potentially the largest financial  
14 bailout in our Nation’s history.

15 (3) The American people, forced to shoulder the  
16 financial burden of the bailout, deserve to know  
17 what went wrong and why.

18 (4) Any executive officers and members of the  
19 boards of directors at Fannie Mae and Freddie Mac  
20 who may have exercised poor judgment or committed  
21 wrongdoing should be held accountable for such  
22 judgments and actions.

23 (5) In June 2003, Freddie Mac disclosed that  
24 it had misstated its earnings by roughly \$5 billion  
25 between the years 2000 and 2002 to smooth the ap-

1       pearance of quarterly volatility in earnings and to  
2       meet Wall Street expectations.

3               (6) In December 2004, the Securities and Ex-  
4       change Commission found that Fannie Mae had vio-  
5       lated accounting rules and needed to restate its  
6       earnings by recording a loss of up to \$9 billion from  
7       2001 to 2004 based on board policies established  
8       prior to that period.

9               (7) The shareholders of Fannie Mae and  
10       Freddie Mac and the employees and directors of the  
11       boards of these enterprises have enjoyed large divi-  
12       dends, bonuses, salaries, and other compensation  
13       based on policies and practices that may have been  
14       misguided or fraudulent.

15              (8) In 2007, former Freddie Mac Chairman  
16       and Chief Executive Richard Syron alone received  
17       nearly \$18,300,000 in compensation, despite the fact  
18       that the enterprise's stock lost half its value.

19              (9) Last year, former Fannie Mae President  
20       and Chief Executive Daniel Mudd received com-  
21       pensation valued at \$11,600,000.

22              (10) Previous investigations of Fannie Mae and  
23       Freddie Mac have focused on accounting fraud, but  
24       there have not been any investigations on the poli-  
25       cies and decisions that contributed to and exacer-

1       bated our Nation's housing crisis and financial col-  
2       lapse of these corporations.

3               (11) According to the Office of Federal Hous-  
4       ing Enterprise Oversight, regulation allowed Freddie  
5       Mac and Fannie Mae to overleverage and operate  
6       with just \$83.2 billion of capital at the end of 2007,  
7       even though it supported \$5.2 trillion of debt and  
8       guarantees.

9               (12) Although the executive officers of Fannie  
10       Mae and Freddie Mac have come under scrutiny,  
11       their boards of directors have been held harmless  
12       throughout the Nation's housing crisis, despite hav-  
13       ing the authority to create, influence, and vote for  
14       the policies of such enterprises.

15              (13) The involvement of the boards of directors  
16       in the policies of Fannie Mae and Freddie Mac has  
17       been shrouded in secrecy, as their policymaking deci-  
18       sions have not been publicly disclosed, despite the  
19       public protections and benefits their enterprises re-  
20       ceive.

21              (14) There is a need to fully understand what  
22       went wrong in the management of Fannie Mae and  
23       Freddie Mac and the misguided, potentially fraudu-  
24       lent board policies and practices that ultimately led  
25       to the Federal conservatorship of such enterprises so

1 that similar mistakes will not be repeated in the fu-  
2 ture.

3 **SEC. 3. ESTABLISHMENT.**

4 There is established a commission to be known as the  
5 “Independent Fannie Mae and Freddie Mac Investigative  
6 Commission” (in this Act referred to as the “Commis-  
7 sion”). The Commission shall function upon the legislation  
8 being signed by the President of the United States and  
9 will conduct its investigations for a period of two years,  
10 issuing a final report upon completion with necessary  
11 hearings and assembly of related records for the period  
12 following the savings and loan crisis of the 1980s to the  
13 present.

14 **SEC. 4. DUTIES OF THE COMMISSION.**

15 The Commission shall investigate, determine, and  
16 make recommendations with respect to the following:

17 (1) The policies, practices, and board decisions  
18 of Fannie Mae and Freddie Mac from the 1990s  
19 through the present that led to the enterprises’ fi-  
20 nancial instability and the subsequent Federal con-  
21 servatorship of such enterprises.

22 (2) Fannie Mae and Freddie Mac’s involve-  
23 ment, if any, in the creation and proliferation of the  
24 securitized mortgage instrument, and how such in-  
25 strument affected the solvency of such enterprises.

1           (3) The role of the boards of directors of  
2 Fannie Mae and Freddie Mac in developing the ac-  
3 counting and financial risk policies of such enter-  
4 prises, particularly as they relate to subprime mort-  
5 gages and the international securitization of mort-  
6 gages.

7           (4) The actions of each board member or mem-  
8 bers, executive officer or officers, or the board mem-  
9 ber or members and executive officer or officers re-  
10 sponsible for making the financial decisions to grow  
11 such enterprises' portfolios of subprime mortgage  
12 loans.

13           (5) The board member or members, executive  
14 officer or officers, or the board member or members  
15 and executive officer or officers responsible for mak-  
16 ing the decisions that may have encouraged the pro-  
17 liferation of the subprime mortgage industry.

18           (6) The decisions that contributed to the over-  
19 valuation of risky mortgage investments in the stock  
20 market and to the growth of the subprime mortgage  
21 industry.

22           (7) The annual compensation, stock options,  
23 and other financial benefits that accrued to each of  
24 Fannie Mae and Freddie Mac's executive officers

1 and members of their boards of directors from 1990  
2 to 2008.

3 (8) The board members, if any, who financially  
4 benefitted from their appointment to either board of  
5 directors and/or through the decisions of such board.

6 (9) The tracking of political contributions to  
7 Presidential and congressional elections and cam-  
8 paign funds that served to influence U.S. housing  
9 policy by board members, officers, and employees.

10 (10) The appropriate role of Fannie Mae and  
11 Freddie Mac in the U.S. housing market nationwide  
12 and regionally.

13 (11) Such other matters that the President or  
14 the Congress may place before the Commission.

15 (12) The Commission shall possess full sub-  
16 poena power and authority to hire necessary staff to  
17 conduct its affairs.

18 **SEC. 5. MEMBERSHIP.**

19 (a) NUMBER AND APPOINTMENT.—The Commission  
20 shall be composed of 9 members appointed by the Presi-  
21 dent as follows:

22 (1) One member who shall serve as the Chair-  
23 person, shall be appointed with the advice of the  
24 Senate.

1           (2) Eight members, not more than four of  
2           whom shall be members of the same political party,  
3           to be appointed based on recommendations from the  
4           Speaker and the minority leader of the House of  
5           Representatives, and the majority leader and minor-  
6           ity leader of the Senate, who shall each submit the  
7           names of two recommended candidates to the Presi-  
8           dent.

9           (b) TERMS.—Each member shall be appointed for the  
10          life of the Commission.

11          (c) VACANCIES.—A vacancy on the Commission shall  
12          be filled in the manner in which the original appointment  
13          was made for the remainder of that term. If there is a  
14          vacancy in the Chair of the Commission, the remaining  
15          members of the Commission may choose from among the  
16          members an interim Chairperson to serve until a new  
17          Chairperson is appointed.

18          **SEC. 6. COMPENSATION.**

19          MEMBERS OF CONGRESS.—Members of the Commis-  
20          sion who are Members of Congress shall not receive addi-  
21          tional pay, allowances, or benefits by reason of their serv-  
22          ice on the Commission, but, as permitted by law, may be  
23          reimbursed for travel, subsistence, and other necessary ex-  
24          penses incurred when performing duties of the Commis-  
25          sion.



1 **SEC. 7. COMMISSION HIRING ALLOWANCE.**

2       Such sums as are necessary shall be appropriated to  
3 conduct the activities of the Commission but shall be no  
4 less than \$5 million annually. Recovery of any assets  
5 fraudulently accruing to members of the boards of direc-  
6 tors shall be returned to the general Treasury to offset  
7 such expenditures.

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